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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
10/821,418	04/09/2004	Patrick Aichroth	SCH00175	1229
22862 7590 07/29/2009 GLENN PATENT GROUP 3475 EDISON WAY, SUITE L MENLO PARK, CA 94025				
EXAMINER NIGH, JAMES D				
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Please find below and/or attached an Office communication concerning this application or proceeding.

The time period for reply, if any, is set in the attached communication.

Office Action Summary

Application No.

10/821,418

Applicant(s)

AICHROTH ET AL.

Examiner

JAMES D. NIGH

Art Unit

3685

-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --
Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) OR THIRTY (30) DAYS, WHICHEVER IS LONGER, FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

- 1) ☒ Responsive to communication(s) filed on 15 June 2009.
- 2a) ☐ This action is **FINAL**. 2b) ☒ This action is non-final.
- 3) ☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

- 4) ☒ Claim(s) 1-18 is/are pending in the application.
- 4a) Of the above claim(s) 13-18 is/are withdrawn from consideration.
- 5) ☐ Claim(s) _____ is/are allowed.
- 6) ☒ Claim(s) 1-12 is/are rejected.
- 7) ☐ Claim(s) _____ is/are objected to.
- 8) ☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

- 9) ☐ The specification is objected to by the Examiner.
- 10) ☐ The drawing(s) filed on _____ is/are: a) ☐ accepted or b) ☐ objected to by the Examiner.
Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).
Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).
- 11) ☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

- 12) ☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).
- a) ☐ All b) ☐ Some * c) ☐ None of:
1. ☐ Certified copies of the priority documents have been received.
 2. ☐ Certified copies of the priority documents have been received in Application No. _____.
 3. ☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

- 1) ☒ Notice of References Cited (PTO-892)
- 2) ☐ Notice of Draftsperson's Patent Drawing Review (PTO-948)
- 3) ☐ Information Disclosure Statement(s) (PTO/SG/US)
Paper No(s)/Mail Date _____
- 4) ☐ Interview Summary (PTO-413)
Paper No(s)/Mail Date _____
- 5) ☐ Notice of Informal Patent Application
- 6) ☐ Other: _____

DETAILED ACTION

Continued Examination Under 37 CFR 1.114

1. A request for continued examination under 37 CFR 1.114, including the fee set forth in 37 CFR 1.17(e), was filed in this application after final rejection. Since this application is eligible for continued examination under 37 CFR 1.114, and the fee set forth in 37 CFR 1.17(e) has been timely paid, the finality of the previous Office action has been withdrawn pursuant to 37 CFR 1.114. Applicant's submission filed on 15 June 2009 has been entered.

Claim Status

2. Claims 1-2 and 12 have been amended. Claims 1-12 are currently pending and are presented for examination on the merits.

Response to Amendment

3. Claim 1 has included a "hardware apparatus". This recitation, while reciting structure, does not point to a "particular machine" as performing the method. As there is no physical transformation occurring, claim 1 is still not encompassing statutory subject matter. Based on Supreme Court precedent (See also *Diamond v. Diehr*, 450 U.S. 175, 184 (1981); *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978); *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972); *Cochrane v. Deener*, 94 U.S. 780, 787-88 (1876)) and recent Federal Circuit decisions, a §101 process must (1) be tied to another statutory class (such as a particular apparatus) or (2) transform underlying subject matter (such as an article or materials) to a different state or thing. In addition, the tie to a particular

apparatus, for example, cannot be mere extra-solution activity. See *In re Bilski*, 88 USPQ2d 1385 (Fed. Cir. 2008).

An example of a method claim that would not qualify as a statutory process would be a claim that recited purely mental steps.

To meet prong (1), the method step should positively recite the other statutory class (the thing or product) to which it is tied. This may be accomplished by having the claim positively recite the machine that accomplishes the method steps. Alternatively or to meet prong (2), the method step should positively recite identifying the material that is being changed to a different state or positively recite the subject matter that is being transformed.

In this particular case, claim 1 fails prong (1) because the method steps are not tied to a machine and can be performed without the use of a particular machine. Additionally, the claim(s) fail prong (2) because the method steps do not transform the underlying subject matter to a different state or thing.

4. While the amended claim language "wherein, on the basis of the information associated with the reduced version, additional information, which indicates that the reduced version of the virtual product has been passed on to a third party by the distributor, is created in response to the third party having acquired rights to the virtual product subsequent to obtaining the reduced version of the virtual product" now no longer contains the optional expression "if" the language contained within this clause does not actually positively recite the performance of any method steps. By placing passive language into this clause such as "on the basis", "which indicates" and "is

created" Applicant is only suggesting that the creation of the information relative to passing on the reduced version takes place within a process. However there would be no requirement based on the recitation as stated that the information is actually created within the claimed invention. As no steps are recited as being part of the claimed invention this process could take place separately on a different machine. Therefore the language following the "wherein" is simply descriptive material and as the claimed data has no manipulative effect on any of the method steps it is nonfunctional in nature and therefore is not entitled to any patentable weight "Where the printed matter is not functionally related to the substrate, the printed matter will not distinguish the invention from the prior art in terms of patentability [T]he critical question is whether there exists any new and unobvious functional relationship between the printed matter and the substrate" *In re Gulack*, 217 USPQ 401 (Fed. Cir. 1983), *In re Ngai*, 70 USPQ2d (Fed. Cir. 2004), *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994); MPEP 2106.01 II, "We conclude that when the prior art describes all of the claimed structural and functional relationships between descriptive material and the substrate, but the prior art describes a different descriptive material than the claim, then the claimed descriptive material is non-functional and will not constitute a sufficient difference from the prior art to establish patentability. That is, we conclude that such a scenario presents no new and unobvious functional relationship between the descriptive material and the substrate. We find that the data elements used in the claimed method do not functionally change the implemented method in that they do not alter how the process steps are to be performed to achieve the utility of the invention (Fact 30). Rather, these data elements

are analogous to printed matter in that they represent merely underlying data in a database (Fact 31)." See *In re Lowry*, 32 F.3d 1579, 1583 [32 USPQ2d 1031] (Fed. Cir. 1994). *Ex parte Halligan*, 89 USPQ2d 1355 (Bd. Pat. App. & Int. 2008).

5. Amended claim 2 recites "in response to the third party who has received the reduced version of the virtual product wanting to acquire rights to the virtual product in the original version". "Wanting" is an action that cannot be performed by a machine and can only be performed by a human being. No machine is capable of acting simply based on a human being's "wants". The human being may initiate an action on the machine which evidences that "want", such as issuing a request, making a selection, etc. which is tangible evidence that the user is "wanting" of something and is therefore something to which the machine can respond.

6. Amended claim 12 recites "Digital storage medium having stored thereon a computer program having a program code for carrying out a method of providing a virtual product to third parties, when the program runs on a computer, wherein the virtual product is present in an original version in a digital form having a predetermined quality, the method comprising". This is non-statutory subject matter as no requirement is made that the program be integrally part of the machine. Applicant may overcome the rejection by reciting "computer-readable storage medium encoded with computer-executable instructions which when executed by a computer causes the computer to perform the steps of"

Response to Arguments

7. Applicant's argument regarding the 35 U.S.C. § 103 rejection, specifically that "When the buyer (a third party) of claim 1 buys the virtual product from the promoter, then the additional information is created. Importantly, the additional information is created on the basis of the information associated with the reduced version, i.e. on the information relating to the distributor, so that the additional information indicates not only the third party, i.e. the buyer of the virtual product, but also the promoter of the virtual product and that a passing-on of the product has taken place. Due to the fact that this additional information specifically naming the promoter is generated, the reward for the promoter can be sent to the right promoter" has been fully considered but is not persuasive. As Examiner has pointed out the language includes expressions such as "on the basis", "which indicates" and "is created" Applicant is only suggesting that the creation of the information relative to passing on the reduced version takes place within a process. However there would be no requirement based on the recitation as stated that the information is actually created within the claimed invention. As no steps are recited as being part of the claimed invention this process could take place separately on a different machine. Therefore the language following the "wherein" is simply descriptive material and as the claimed data has no manipulative effect on any of the method steps it is nonfunctional in nature and therefore is not entitled to any patentable weight "Where the printed matter is not functionally related to the substrate, the printed matter will not distinguish the invention from the prior art in terms of patentability [T]he critical question is whether there exists any new and unobvious functional

relationship between the printed matter and the substrate" *In re Gulack*, 217 USPQ 401 (Fed. Cir. 1983), *In re Ngai*, 70 USPQ2d (Fed. Cir. 2004), *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994); MPEP 2106.01 II, "We conclude that when the prior art describes all of the claimed structural and functional relationships between descriptive material and the substrate, but the prior art describes a different descriptive material than the claim, then the claimed descriptive material is non-functional and will not constitute a sufficient difference from the prior art to establish patentability. That is, we conclude that such a scenario presents no new and unobvious functional relationship between the descriptive material and the substrate. We find that the data elements used in the claimed method do not functionally change the implemented method in that they do not alter how the process steps are to be performed to achieve the utility of the invention (Fact 30). Rather, these data elements are analogous to printed matter in that they represent merely underlying data in a database (Fact 31)." See *In re Lowry*, 32 F.3d 1579, 1583 [32 USPQ2d 1031] (Fed. Cir. 1994). *Ex parte Halligan*, 89 USPQ2d 1355 (Bd. Pat. App. & Int. 2008).

However Examiner would also point out that as a business method the practice of having a product passed through multiple levels of marketing layers with commissions being assigned and paid to each layer is old and well known. Examiner cites as reference ("Networks in Marketing", Chapter 15, "Examining the Embedded Markets of Network Marketing Organizations", 1996, (Dawn Iacobucci, ed), Thousand Oaks, CA: Sage Publishing , Author: Kent Grayson, 17 pages):

page 2, "In particular, a network marketing agent, often called a 'distributor,' is encouraged to play not only the role of salesperson, but also that of personnel recruiter, sales manager, and end-user. These four roles and the reward structures that support them are outlined next"

page 3, "Network marketing distributors are rewarded not only for their own sales, but also for the sales of others whom they have recruited into the network. To understand this portion of the network marketing reward structure, imagine that you are a network marketing distributor and that your friend, Mary, is interested in becoming a distributor as well. If you sponsored Mary as a distributor, then Mary would become part of your 'downline.'" From then on, Mary's sales would increase your earnings in two ways. First, you would earn a commission on Mary's sales, based on a commission rate that would change depending on Mary's sales relative to yours (This rate, however, would rarely fall below 3% to 51.) Second, your parent company would determine your personal commission rate by combining your sales with Mary's"

page 5, "Network marketing companies like Amway Corporation and Shaklee Corporation have each operated prosperously in the United States for over 30 years (Roha, 1991). Amway, with sales of nearly \$5 billion annually, has been among the most aggressive in terms of international expansion, having entered 10 new countries during the 1980s, and having launched in 10 more countries between 1990 and 1994 (Doebele, 1994). Other successful network marketing companies include: Nu Skin International, whose 1994 sales were \$500 million (von Daehne, 1994); Herbalife International, a publicly traded company with 1992 sales of \$405 million (Linden &

Stern, 1993); Cabouchon, a U.K.-based jewelry company with \$120 million in sales (-A Good Idea," 1995); and Melaleuca Inc., which has been named five times to Inc. magazine's 500 fastest growing privately owned companies (Inc., 1994). Although network marketing companies have marketed everything from jewelry (Eskin, 1991) to legal insurance (Thompson, 1987), they are probably best known for their successful marketing of health and beauty products", "there is a perception among many consumers, practitioners, and researchers that network marketing is, at heart, an illegal business strategy. This is in part because network marketing is often confused with its illegal cousins, such as the pyramid scheme, the chain letter, and the Ponzi scheme".

As such Examiner does not see where any part of the Applicant's claimed invention requires the use of a machine to perform the method. The reduced versions of the virtual product could also be shown or distributed at a social gathering and the commission payments could be tracked with pencil and paper. As noted above, many successful companies have employed multi-level or network marketing and given the length of their existence have obviously done so without the use of a computer. The infamous Ponzi scheme of the 1920's took place before the computer even existed. Therefore it is not clear that the Applicant's claimed invention is not simply the automation of a manual activity "*In re Venner*, 262 F.2d 91, 95, 120 USPQ 193, 194 (CCPA 1958) (Appellant argued that claims to a permanent mold casting apparatus for molding trunk pistons were allowable over the prior art because the claimed invention combined "old permanent-mold structures together with a timer and solenoid which automatically actuates the known pressure valve system to release the inner core after

a predetermined time has elapsed." The court held that broadly providing an automatic or mechanical means to replace a manual activity which accomplished the same result is not sufficient to distinguish over the prior art.).

8. Applicant's argument with regard to the second paragraph of claim 1 has been fully considered but is not persuasive. As noted above the language "wherein, on the basis of the information associated with the reduced version, additional information, which indicates that the reduced version of the virtual product has been passed on to a third party by the distributor, is created in response to the third party having acquired rights to the virtual product subsequent to obtaining the reduced version of the virtual product" does not actually positively recite the performance of any method steps. By placing passive language into this clause such as "on the basis", "which indicates" and "is created" Applicant is only suggesting that the creation of the information relative to passing on the reduced version takes place within a process. However there would be no requirement based on the recitation as stated that the information is actually created within the claimed invention. As no steps are recited as being part of the claimed invention this process could take place separately on a different machine. Therefore the language following the "wherein" is simply descriptive material and as the claimed data has no manipulative effect on any of the method steps it is nonfunctional in nature and therefore is not entitled to any patentable weight "Where the printed matter is not functionally related to the substrate, the printed matter will not distinguish the invention from the prior art in terms of patentability [T]he critical question is whether there exists any new and unobvious functional relationship between the printed matter and

the substrate" *In re Gulack*, 217 USPQ 401 (Fed. Cir. 1983), *In re Ngai*, 70 USPQ2d (Fed. Cir. 2004), *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994); MPEP 2106.01 II, "We conclude that when the prior art describes all of the claimed structural and functional relationships between descriptive material and the substrate, but the prior art describes a different descriptive material than the claim, then the claimed descriptive material is non-functional and will not constitute a sufficient difference from the prior art to establish patentability. That is, we conclude that such a scenario presents no new and unobvious functional relationship between the descriptive material and the substrate. We find that the data elements used in the claimed method do not functionally change the implemented method in that they do not alter how the process steps are to be performed to achieve the utility of the invention (Fact 30). Rather, these data elements are analogous to printed matter in that they represent merely underlying data in a database (Fact 31)." See *In re Lowry*, 32 F.3d 1579, 1583 [32 USPQ2d 1031] (Fed. Cir. 1994). *Ex parte Halligan*, 89 USPQ2d 1355 (Bd. Pat. App. & Int. 2008).

9. Applicant's argument that "Likewise, Lee does not disclose the features in the second paragraph of claim 1..." has been fully considered but is not persuasive. As stated above paragraph 2 recites no actual steps being performed as part of the method but simply uses passive language to suggest that the steps are being performed. As no positively recited steps are claimed within the language of paragraph 2 these steps could be performed on a separate machine outside the scope of the claimed invention. "Although the claims are interpreted in light of the specification, limitations from the

specification are not read into the claims", See *In re Van Geuns*, 988 F.2d 1181, 26 USPQ2d 1057 (Fed. Cir. 1993).

Claim Rejections - 35 USC § 101

10. 35 U.S.C. 101 reads as follows:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

11. **Claims 1-12 are rejected under 35 U.S.C. 101 because the claimed invention is directed to non-statutory subject matter.**

12. Claim 1 recites a method of providing a virtual product to third parties but does not positively recite a "particular machine" as performing the method, nor is any physical transformation occurring. Based on Supreme Court precedent (See also *Diamond v. Diehr*, 450 U.S. 175, 184 (1981); *Parker v. Flook*, 437 U.S. 584, 588 n.9 (1978); *Gottschalk v. Benson*, 409 U.S. 63, 70 (1972); *Cochrane v. Deener*, 94 U.S. 780, 787-88 (1876)) and recent Federal Circuit decisions, a §101 process must (1) be tied to another statutory class (such as a particular apparatus) or (2) transform underlying subject matter (such as an article or materials) to a different state or thing. In addition, the tie to a particular apparatus, for example, cannot be mere extra-solution activity. See *In re Bilski*, 88 USPQ2d 1385 (Fed. Cir. 2008).

An example of a method claim that would not qualify as a statutory process would be a claim that recited purely mental steps.

To meet prong (1), the method step should positively recite the other statutory class (the thing or product) to which it is tied. This may be accomplished by having the claim positively recite the machine that accomplishes the method steps. Alternatively or

to meet prong (2), the method step should positively recite identifying the material that is being changed to a different state or positively recite the subject matter that is being transformed.

In this particular case, claim 1 fails prong (1) because the method steps are not tied to a machine and can be performed without the use of a particular machine. Additionally, the claim(s) fail prong (2) because the method steps do not transform the underlying subject matter to a different state or thing.

The rejection may be overcome by reciting a "particular machine or apparatus" as performing the method steps (such as a computer).

13. Claims 2-11 are also rejected as being dependent upon claim 1.

14. Claim 12 recites "Digital storage medium having stored thereon a computer program having a program code for carrying out a method of providing a virtual product to third parties, when the program runs on a computer, wherein the virtual product is present in an original version in a digital form having a predetermined quality, the method comprising" which does not actually require that the program code ever be executed on a computer; therefore no functional machine is actually being claimed and as such this is simply a statement of intended use. While functional language may be used in claims it is structure, not function that will distinguish claims from the prior art "While features of an apparatus may be recited either structurally or functionally, claims directed to an apparatus must be distinguished from the prior art in terms of structure rather than function alone", MPEP 2114; *In re Swineheart*, 169 USPQ 226; *In re Schreiber*, 44 USPQ2d 1429 (Fed. Cir. 1997). The rejection may be overcome by

reciting "computer-readable storage medium encoded with computer-executable instructions which when executed by a computer causes the computer to perform the steps of..."

Claim Rejections - 35 USC § 112

15. The following is a quotation of the second paragraph of 35 U.S.C. 112:

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

16. **Claims 1-12 are rejected under 35 U.S.C. 112, second paragraph, as being indefinite for failing to particularly point out and distinctly claim the subject matter which applicant regards as the invention.**

17. Claims 1 and 12 recite language "wherein, on the basis of the information associated with the reduced version, additional information, which indicates that the reduced version of the virtual product has been passed on to a third party by the distributor, is created in response to the third party having acquired rights to the virtual product subsequent to obtaining the reduced version of the virtual product". It is not clear from this language whether the "additional information" is actually being created by the claimed invention or is part of separate process; therefore the scope of the claim is unclear.

18. Claim 1 recites language "wherein, on the basis of the information associated with the reduced version, additional information, which indicates that the reduced version of the virtual product has been passed on to a third party by the distributor, is created in response to the third party having acquired rights to the virtual product subsequent to obtaining the reduced version of the virtual product". The claim is

incomplete for omitting essential steps, such omission amounting to a gap between the steps. See MPEP § 2172.01. The omitted steps are: receiving a request from a third party for a virtual product, sending the virtual product to the third party, receiving a request from a third party for the rights to the virtual product, sending the rights for the virtual product to the third party, storing information in association with the reduced version indicating that the rights to the virtual product have been acquired by the third party, reading the information associated with the reduced version, evaluating the information associated with the reduced version, based on the evaluation determining whether the virtual product has been passed on to a third party by the distributor, upon a determination that the virtual product has been passed on to a third party by the distributor, creating additional information.

19. Claim 1 recites that the method is performed by a hardware apparatus but Applicant's disclosure does not indicate what devices would be encompassed by the term "hardware apparatus"; therefore the scope of this expression cannot be determined "An essential purpose of patent examination is to fashion claims that are precise, clear, correct, and unambiguous. Only in this way can uncertainties of claim scope be removed...", *In re Zletz*, 13 USPQ2d 1320 (Fed. Cir. 1989).

20. Claim 1 recites "subsequent to obtaining...", however no step of obtaining has been disclosed; therefore this lacks antecedent basis and as such is indefinite. "An essential purpose of patent examination is to fashion claims that are precise, clear, correct, and unambiguous. Only in this way can uncertainties of claim scope be removed...", *In re Zletz*, 13 USPQ2d 1320 (Fed. Cir. 1989)

21. Claim 2 recites "wanting to acquire rights to the virtual product in the original version". It is unclear how a machine would be able to assess the what a third party is "wanting"; therefore the claim is indefinite "An essential purpose of patent examination is to fashion claims that are precise, clear, correct, and unambiguous. Only in this way can uncertainties of claim scope be removed...", *In re Zletz*, 13 USPQ2d 1320 (Fed. Cir. 1989).

22. Claim 2 recites "performing the transaction required for obtaining a predetermined right to the virtual product in the original version". As "performing the transaction" could require many steps (requesting product, requesting payment, offering payment, verifying payment, sending the product, evaluating the rights expression, modifying the rights expression, storing the modified rights expression, updating the information associated with the virtual product, etc.) it is unclear what action or actions are taking place with the recitation "performing the transaction"; therefore the claim is indefinite. "An essential purpose of patent examination is to fashion claims that are precise, clear, correct, and unambiguous. Only in this way can uncertainties of claim scope be removed...", *In re Zletz*, 13 USPQ2d 1320 (Fed. Cir. 1989).

23. Claim 2 recites "based on the information associated with the reduced version, creating information indicating that the transaction is based on the passing-on of the reduced version of the virtual product by the distributor"; however as no steps are claimed that actually process the information associated with the reduced version it is unclear as to what actions would be taken "based on the information" and therefore the claim is indefinite "An essential purpose of patent examination is to fashion claims that

are precise, clear, correct, and unambiguous. Only in this way can uncertainties of claim scope be removed...”, *In re Zletz*, 13 USPQ2d 1320 (Fed. Cir. 1989).

24. Claim 4 recites “wherein step (a) of creating the reduced version includes...” however no step of creating the reduced version was claimed in (a), merely that of providing the reduced version; therefore the claim lacks antecedent basis and is indefinite “An essential purpose of patent examination is to fashion claims that are precise, clear, correct, and unambiguous. Only in this way can uncertainties of claim scope be removed...”, *In re Zletz*, 13 USPQ2d 1320 (Fed. Cir. 1989).

25. Claims 2-11 are also rejected as being dependent upon claim 1.

Claim Rejections - 35 USC § 103

26. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

27. **Claims 1-12 are rejected under 35 U.S.C. 103(a) as being unpatentable over Ho et al, US PGPub 2005/0069129 (hereinafter referred to as Ho) and in view of Lee et al, US PGPub.2003/0078889 (hereinafter referred to as Lee) and in further view of Networks in Marketing (“Networks in Marketing”, Chapter 15, “Examining the Embedded Markets of Network Marketing Organizations”, 1996, (Dawn Iacobucci, ed), Thousand Oaks, CA: Sage Publishing , Author: Kent Grayson, 17 pages, hereinafter referred to as Networks):**

28. Regarding claims 1-4, 8, and 11-12, Ho discloses a method for providing a virtual product from a first party (media content published on the internet by a publishing entity [0007]) to another party (internet user of the product [0007]). This initially obtained version is reduced in quality (video appears in grayscale only [0007]), and contains information about a specific type of playback environment (video is encoded to include information about a specific player necessary for unlocking color scale [0012]). The video requires a password to unlock the color scale option, and this information is only available to users who have purchased usage rights (user requests password and rights [0012]), this information is then passed on to the user so that they may unlock the full features of the product (authorized user may enter password to view color scale [0012]). What is not disclosed by Ho is the step of information about the distributor being disclosed. The Lee publication discloses use of network file sharing communities to distribute media files for the publisher ([0033]). Many of these network file sharing services such as Napster, who obtain the legal rights to use the media they distribute (use of the Peer to Peer service Napster [0033]) contain their own media player. It would have been obvious to one of ordinary skill in the art at the time of the invention to for the information contained in the video which refers to player specifics to also refer to the distributor as many distributors have their own media services, and doing so would increase security by limiting authorized distributors of the media content.

Neither Ho nor Lee explicitly disclose a reward system for multiple levels of distribution. Networks teaches multi-level marketing which includes distributors, and a

"downline" where persons at higher levels are compensated for the activities of those at lower levels (pages 2, 3, 5).

It would have been obvious to one of ordinary skill in the art at the time of the invention to combine the method of protecting copyright of digital works of Ho with the method of preventing reduction of sales amount of records due to a digital music file illegally distributed through communication network of Lee further with the embedded markets of Networks for the purpose of rewarding distributors for using their recruitment, training, and management skills to develop a thriving and growing sales network.

The language of claims 1 and 12 "wherein, on the basis of the information associated with the reduced version, additional information, which indicates that the reduced version of the virtual product has been passed on to a third party by the distributor, is created in response to the third party having acquired rights to the virtual product subsequent to obtaining the reduced version of the virtual product" does not actually positively recite the performance of any method steps. By placing passive language into this clause such as "on the basis", "which indicates" and "is created" Applicant is only suggesting that the creation of the information relative to passing on the reduced version takes place within a process. However there would be no requirement based on the recitation as stated that the information is actually created within the claimed invention. As no steps are recited as being part of the claimed invention this process could take place separately on a different machine. Therefore the language following the "wherein" is simply descriptive material and as the claimed data has no manipulative effect on any of the method steps it is nonfunctional in nature

and therefore is not entitled to any patentable weight "Where the printed matter is not functionally related to the substrate, the printed matter will not distinguish the invention from the prior art in terms of patentability [T]he critical question is whether there exists any new and unobvious functional relationship between the printed matter and the substrate" *In re Gulack*, 217 USPQ 401 (Fed. Cir. 1983), *In re Ngai*, 70 USPQ2d (Fed. Cir. 2004), *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994); MPEP 2106.01 II, "We conclude that when the prior art describes all of the claimed structural and functional relationships between descriptive material and the substrate, but the prior art describes a different descriptive material than the claim, then the claimed descriptive material is non-functional and will not constitute a sufficient difference from the prior art to establish patentability. That is, we conclude that such a scenario presents no new and unobvious functional relationship between the descriptive material and the substrate. We find that the data elements used in the claimed method do not functionally change the implemented method in that they do not alter how the process steps are to be performed to achieve the utility of the invention (Fact 30). Rather, these data elements are analogous to printed matter in that they represent merely underlying data in a database (Fact 31)." See *In re Lowry*, 32 F.3d 1579, 1583 [32 USPQ2d 1031] (Fed. Cir. 1994). *Ex parte Halligan*, 89 USPQ2d 1355 (Bd. Pat. App. & Int. 2008).

The language of claim 8 "wherein step (b) includes passing on the reduced version via a network, a wireless connection and/or a portable storage medium is simply a nominal recitation of structure in a method claim. In order to receive patentable weight in a method claim the recitations of structure must affect the method in a

manipulative sense and not amount to mere recitations of structure "As to the rejection of the claims on the prior art references, we do not agree with the appellant that such structural limitations as are not disclosed by the references should be given patentable weight. This argument is applicable to claims drawn to structure and not claims drawn to a method. To be entitled to such weight in method claims, the recited structural limitations therein must affect the method in a manipulative sense and not to amount to the mere claiming of a use of a particular structure, which, in our opinion, is the case here", *Ex parte Pfeiffer*, 135 USPQ 31 (BdPatApp&Int 1961).

The language of claim 11 "wherein the distributor is a first buyer who has acquired a predetermined right to the original version of the virtual product from a provider, and wherein the third party is a second buyer" is simply descriptive material and as the claimed data has no manipulative effect on any of the method steps it is nonfunctional in nature and therefore is not entitled to any patentable weight "Where the printed matter is not functionally related to the substrate, the printed matter will not distinguish the invention from the prior art in terms of patentability [T]he critical question is whether there exists any new and unobvious functional relationship between the printed matter and the substrate" *In re Gulack*, 217 USPQ 401 (Fed. Cir. 1983), *In re Ngai*, 70 USPQ2d (Fed. Cir. 2004), *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994); MPEP 2106.01 II, "We conclude that when the prior art describes all of the claimed structural and functional relationships between descriptive material and the substrate, but the prior art describes a different descriptive material than the claim, then the claimed descriptive material is non-functional and will not constitute a sufficient

difference from the prior art to establish patentability. That is, we conclude that such a scenario presents no new and unobvious functional relationship between the descriptive material and the substrate. We find that the data elements used in the claimed method do not functionally change the implemented method in that they do not alter how the process steps are to be performed to achieve the utility of the invention (Fact 30). Rather, these data elements are analogous to printed matter in that they represent merely underlying data in a database (Fact 31)." See *In re Lowry*, 32 F.3d 1579, 1583 [32 USPQ2d 1031] (Fed. Cir. 1994). *Ex parte Halligan*, 89 USPQ2d 1355 (Bd. Pat. App. & Int. 2008).

29. Regarding claims 5-6, which refer to claim 2 as disclosed above and further recite the limitation of encrypting the product. Ho discloses the use of password protection and digital watermarking where the user is given a password after securing rights to the product (user can unlock the video to view full color scale [0012]). The Lee publication discloses encrypting a digital media file prior to distribution throughout the network (figure 2), and the step of a user receiving a key to decrypt the file (user receives private key upon paying for usage rights [0034]). It would have been obvious to one of ordinary skill in the art to encrypt the media product prior to its distribution in order to ensure additional levels of security on top of those provided by the reduced version of the product.

30. Regarding claim 7 which refers to claim 1 as discussed above and further recites the step of including additional information in the product. Ho discusses the inclusion of digital watermark in the video content ([0008]) which constitutes additional information.

31. Regarding claim 9 which refers to claim 2 as discussed above and further recites the limitations of providing a reward to a distributor. Networks teaches a reward to a distributor in pages 2, 3 and 5.

However the language "wherein the information created in step (c.3) indicates a reward for the distributor" is simply descriptive material and as the claimed data has no manipulative effect on any of the method steps it is nonfunctional in nature and therefore is not entitled to any patentable weight "Where the printed matter is not functionally related to the substrate, the printed matter will not distinguish the invention from the prior art in terms of patentability [T]he critical question is whether there exists any new and unobvious functional relationship between the printed matter and the substrate" *In re Gulack*, 217 USPQ 401 (Fed. Cir. 1983), *In re Ngai*, 70 USPQ2d (Fed. Cir. 2004), *In re Lowry*, 32 USPQ2d 1031 (Fed. Cir. 1994); MPEP 2106.01 II, "We conclude that when the prior art describes all of the claimed structural and functional relationships between descriptive material and the substrate, but the prior art describes a different descriptive material than the claim, then the claimed descriptive material is non-functional and will not constitute a sufficient difference from the prior art to establish patentability. That is, we conclude that such a scenario presents no new and unobvious functional relationship between the descriptive material and the substrate. We find that

the data elements used in the claimed method do not functionally change the implemented method in that they do not alter how the process steps are to be performed to achieve the utility of the invention (Fact 30). Rather, these data elements are analogous to printed matter in that they represent merely underlying data in a database (Fact 31)." See *In re Lowry*, 32 F.3d 1579, 1583 [32 USPQ2d 1031] (Fed. Cir. 1994). *Ex parte Halligan*, 89 USPQ2d 1355 (Bd. Pat. App. & Int. 2008).

32. Regarding claim 10 which refers to claim 2 as discussed above and further recites the limitation of information which indicates that a product has been passed on from a distributor to a third party or yet again to a further third party. Ho discusses use of a password that must be requested by the user (user requests access [0012]) and Lee recites a user requesting a private key for decrypting a file ([0034]). As the distributor in this system already had rights to the product, anytime a new password or key is requested the publishing entity will be made aware of the newly acquired possession of the file and will thus have information provided accordingly.

Please note:

A recitation of the intended use of the claimed invention must result in a structural difference between the claimed invention and the prior art in order to patentably distinguish the claimed invention from the prior art. If the prior art structure is capable of performing the intended use, then it meets the claim.

Applicant(s) are reminded that optional or conditional elements do not narrow the claims because they can always be omitted. See e.g. MPEP §2106 II C: "Language that suggest or makes optional but does not require steps to be performed or does not

limit a claim to a particular structure does not limit the scope of a claim or claim limitation. [Emphasis in original.]; and *In re Johnston*, 435 F.3d 1381, 77 USPQ2d 1788, 1790 (Fed. Cir. 2006) ("As a matter of linguistic precision, optional elements do not narrow the claim because they can always be omitted.").

Conclusion

Any inquiry concerning this communication or earlier communications from the examiner should be directed to JAMES D. NIGH whose telephone number is (571)270-5486. The examiner can normally be reached on Monday-Thursday 6:45-5:15.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Calvin L. Hewitt II can be reached on 571-272-6709. The fax phone number for the organization where this application or proceeding is assigned is 571-273-8300.

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/JAMES D NIGH/

Application/Control Number: 10/821,418

Page 26

Art Unit: 3685

Examiner, Art Unit 3685

/Calvin L Hewitt II/

Supervisory Patent Examiner, Art Unit 3685